

## Message Text

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ACTION SS-25

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FM AMEMBASSY LISBON

TO SECSTATE WASHDC IMMEDIATE 3805

S E C R E T LISBON 4700

EXDIS

EO 11652: XGDS-3

TAGS: EAID, PO

SUBJ: U.S. ASSISTANCE FOR A NEW PORTUGUESE ADMINISTRATION

1. FOLLOWING ARE EMBASSY'S THOUGHTS ON CONTINGENCY U.S. ASSISTANCE PROGRAM PURSUANT TO AMBASSADOR'S RECENT WASHINGTON CONSULTATION.

2. SHOULD A NEW PORTUGUESE ADMINISTRATION TAKE OFFICE, ITS MAJOR PROBLEMS WILL BE EMPLOYMENT, INFLATION AND MANAGEMENT. IN CONNECTION WITH LATTER, DEPARTMENT MAY WISH TO REVIEW LISBON 981 ON MELO ANTUNES'S ENCONOMIC PROGRAM WHICH GOP ACCEPTED AND NEVER IMPLEMENTED. RAPID SOLUTIONS FOR THESE PROBLEMS WOULD, MOREOVER, IMPLY AN ACCELERATED DETERIORATION OF AN ALREADY CRITICAL BALANCE OF PAYMENTS SITUATION. WE WOULD PROPOSE TO ASSIST GOP RESOLUTION OF THESE PROBLEMS THROUGH FOLLOWING THREE CATEGORIES OF ACTIVITY:

I. DIRECT U.S. ECONOMIC ASSISTANCE.

A GREATLY EXPANDED AID PROGRAM OF DIRECT ECONOMIC ASSISTANCE TOTALING ABOUT \$85 MILLION IN FY 1975 WOULD BE INITIATED. SUCH A PROGRAM WOULD, IN ADDITION TO ATTACKING BASIC ECONOMIC PROBLEMS, DIRECTLY SUPPORT EFFORTS TO IMPROVE THE CONDITIONS OF LOWER INCOME GROUPS. OUR SUGGESTIONS ARE ALSO DESIGNED TO GIVE NEW GOP MAXIMUM ECONOMIC LEVERAGE IN REGAINING CONTROL FROM PCP OF LOCAL GOVERNMENTAL ENTITIES (E.G. WATER AND SEWER, RURAL ELECTRIFICATION AND HOUSING).

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A PROGRAM LOAN OF \$20 MILLION WOULD BE MADE IMMEDIATELY AVAILABLE TO THE PORTUGUESE GOVERNMENT FOR ESSENTIAL CAPITAL IMPORTS. PROJECT LENDING OF \$62 MILLION WOULD BE NEGOTIATED AS FOLLOWS: A \$15 MILLION LOAN TO THE NATIONAL DEVELOPMENT BANK FOR CREDITS TO THE PRIVATE SECTOR AND, PERHAPS, SELECTED PUBLIC ENTERPRISES FOR INVESTMENT; \$13 MILLION TO THE NATIONAL HOUSING FUND FOR CONTINUATION OF CONSTRUCTION OF LOW-INCOME HOUSING; \$12 MILLION FOR CONSTRUCTION OF SANITARY WATER AND SEWERAGE FACILITIES IN SMALL AND MEDIUM TOWNS THROUGH-OUT PORTUGAL; \$20 MILLION FOR PROJECTS OF AGRICULTURAL PRODUCTION AND FOOD DISTRIBUTION INCLUDING IRRIGATION, FOOD STORAGE AND DISTRIBUTION, AND SOME RURAL ELECTRIFICATION; \$2 MILLION FOR FEASIBILITY STUDIES TO ENABLE THE GOP TO DEVELOP RAPIDLY PROJECTS FOR DOMESTIC AND INTERNATIONAL FINANCING. IN ADDITION, \$3 MILLION IN GRANT FUNDS WOULD BE PROVIDED FOR TECHNICAL ASSISTANCE AND TRAINING IN HIGH PRIORITY DEVELOPMENT FIELDS. WE ASSUME NEW GOP WOULD WELCOME U.S. TECHNICAL ASSISTANCE AND TRAINING, IN CONTRAST TO PRESENT GOP'S APPARENT RELUCTANCE.

BEYOND THESE APPROPRIATED FUNDS, PROVISION WOULD BE MADE FOR A \$20 MILLION HOUSING INVESTMENT GUARANTEE AND A PL 480 TITLE I PROGRAM OF ABOUT \$20 MILLION.

SUMMARY OF AID ASSISTANCE: (\$MILLIONS)

PROGRAM LOAN	\$20
PROJECT LENDING	62
LOW-INCOME HOUSING	13
NATIONAL DEVELOPMENT BANK	15
AGRICULTURAL PRODUCTION AND DISTRIBUTION	20
WATER AND SEWERAGE	12
FEASIBILITY STUDIES	2
TECHNICAL ASSISTANCE	3
TOTAL SUPPORTING ASSIS- TANCE FUNDING	\$85
HOUSING INVESTMENT GUARANTY	(\$20)
PL 480 TITLE I	\$20

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II. ACTIVITIES OF OTHER U.S. AGENCIES, PROVIDED GOP  
ADOPTS APPROPRIATE REFORM MEASURES:

A. INCREASE EXPORT-IMPORT BANK LOANS TO SUPPORT MAJOR  
PROGRAMS IN THE PETROCHEMICAL, HYDROELECTRIC, IRRIGATION AND  
TRANSPORT SECTORS.

B. SUBSTANTIALLY EXPAND MILITARY ASSISTANCE PROGRAM TO

PROVIDE GREATER MATERIAL AND MORE PERSONEL TRAINING, AS  
OUTLINED IN THE JOINT STRATEGIC OPERATION PLAN.

C. EXTEND OPIC COVERAGE TO PORTUGAL.

D. CONSIDER POSSIBILITY OF CURRENCY SWAP BETWEEN U.S.  
TREASURY AND BANK OF PORTUGAL.

III. ACTIVITIES OF INTERNATIONAL INSTITUTIONS, THIRD  
COUNTRY AGENCIES, AND PRIVATE SECTOR:

A. ACTIVELY SUPPORT PORTUGAL'S REQUEST FOR CREDITS FROM  
IMF AND WORLD BANK.

B. ENCOURAGE EUROPEAN COMMUNITY TO INITIATE LARGE-SCALE  
BILATERAL AND MULTILATERAL ASSISTANCE PROGRAMS.

C. STIMULATE PRIVATE FINANCIAL INSTITUTIONS TO INCREASE  
THEIR CREDIT LINES TO GOP AND TO PORTUGUESE BANKING SYSTEM.

D. PROMOTE GREATER PORTUGUESE PARTICIPATION IN INTER-  
NATIONAL PROGRAMS OF TECHNICAL ASSISTANCE AND TECHNOLOGY  
TRANSFER, E.G., UNDP, FAO, AND OECD.

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